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Lisa S. Mataloni: (202) 606-5304 (GDP) [gdpmiwd@bea.gov](mailto:gdpmiwd@bea.gov)  
Andrew Hodge: (202) 606-5564 (Profits) [cpniwd@bea.gov](mailto:cpniwd@bea.gov)  
Recorded message: (202) 606-5306

**National Income and Product Accounts**  
**Gross Domestic Product: Fourth Quarter and Annual 2010 (Third Estimate)**  
**Corporate Profits: Fourth Quarter and Annual 2010**

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 3.1 percent in the fourth quarter of 2010, (that is, from the third quarter to the fourth quarter), according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.6 percent.

The GDP estimate released today is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 2.8 percent (see "Revisions" on page 3).

The increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, and nonresidential fixed investment that were partly offset by negative contributions from private inventory investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

The fourth-quarter acceleration in real GDP primarily reflected a sharp downturn in imports, an acceleration in PCE, an upturn in residential fixed investment, and an acceleration in exports that were partly offset by downturns in private inventory investment, in federal government spending, and in state and local government spending, and a deceleration in nonresidential fixed investment.

Final sales of computers added 0.35 percentage point to the fourth-quarter change in real GDP after adding 0.29 percentage point to the third-quarter change. Motor vehicle output subtracted 0.27 percentage point from the fourth-quarter change in real GDP after adding 0.49 percentage point to the third-quarter change.

**FOOTNOTE.**---Quarterly estimates are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and are annualized. "Real" estimates are in chained (2005) dollars. Price indexes are chain-type measures.

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The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 2.1 percent in the fourth quarter, the same increase as in the second estimate; this index increased 0.7 percent in the third quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 1.1 percent in the fourth quarter, compared with an increase of 0.4 percent in the third.

Real personal consumption expenditures increased 4.0 percent in the fourth quarter, compared with an increase of 2.4 percent in the third. Durable goods increased 21.1 percent, compared with an increase of 7.6 percent. Nondurable goods increased 4.1 percent, compared with an increase of 2.5 percent. Services increased 1.5 percent, compared with an increase of 1.6 percent.

Real nonresidential fixed investment increased 7.7 percent in the fourth quarter, compared with an increase of 10.0 percent in the third. Nonresidential structures increased 7.6 percent, in contrast to a decrease of 3.5 percent. Equipment and software increased 7.7 percent, compared with an increase of 15.4 percent. Real residential fixed investment increased 3.3 percent, in contrast to a decrease of 27.3 percent.

Real exports of goods and services increased 8.6 percent in the fourth quarter, compared with an increase of 6.8 percent in the third. Real imports of goods and services decreased 12.6 percent, in contrast to an increase of 16.8 percent.

Real federal government consumption expenditures and gross investment decreased 0.3 percent in the fourth quarter, in contrast to an increase of 8.8 percent in the third. National defense decreased 2.2 percent, in contrast to an increase of 8.5 percent. Nondefense increased 3.7 percent, compared with an increase of 9.5 percent. Real state and local government consumption expenditures and gross investment decreased 2.6 percent, in contrast to an increase of 0.7 percent.

The change in real private inventories subtracted 3.42 percentage points from the fourth-quarter change in real GDP, after adding 1.61 percentage points to the third-quarter change. Private businesses increased inventories \$16.2 billion in the fourth quarter, following increases of \$121.4 billion in the third quarter and \$68.8 billion in the second.

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Contacts:

GDP:

Lisa Mataloni

(202) 606-5304

[gdpmiwd@bea.gov](mailto:gdpmiwd@bea.gov)

Profits:

Andrew Hodge

(202) 606-5564

[cpniwd@bea.gov](mailto:cpniwd@bea.gov)

Recorded Message:

(202) 606-5306

News Media:

Ralph Stewart, BEA

(202) 606-2649

Thomas Dail, BEA

(202) 606-2649

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Real final sales of domestic product -- GDP less change in private inventories -- increased 6.7 percent in the fourth quarter, compared with an increase of 0.9 percent in the third.

#### Gross domestic purchases

Real gross domestic purchases -- purchases by U.S. residents of goods and services wherever produced -- decreased 0.2 percent in the fourth quarter, in contrast to an increase of 4.2 percent in the third.

#### Gross national product

Real gross national product -- the goods and services produced by the labor and property supplied by U.S. residents -- increased 2.8 percent in the fourth quarter, compared with an increase of 2.3 percent in the third. GNP includes, and GDP excludes, net receipts of income from the rest of the world, which decreased \$10.5 billion in the fourth quarter after decreasing \$7.1 billion in the third; in the fourth quarter, receipts increased \$21.1 billion, and payments increased \$31.5 billion. Current-dollar GDP

Current-dollar GDP -- the market value of the nation's output of goods and services -- increased 3.5 percent, or \$126.3 billion, in the fourth quarter to a level of \$14,871.4 billion. In the third quarter, current-dollar GDP increased 4.6 percent, or \$166.4 billion.

#### Revisions

The upward revision to the percent change in real GDP primarily reflected upward revisions to private inventory investment and to nonresidential fixed investment that were partly offset by a downward revision to exports of goods and services.

	Advance Estimate (Percent change from preceding quarter)	Second Estimate	Third Estimate
Real GDP.....	3.2	2.8	3.1
Current-dollar GDP.....	3.4	3.2	3.5
Gross domestic purchases price index...	2.1	2.1	2.1

#### 2010 GDP

Real GDP increased 2.9 percent in 2010 (that is, from the 2009 annual level to the 2010 annual level), in contrast to a decrease of 2.6 percent in 2009.

The increase in real GDP in 2010 primarily reflected positive contributions from private inventory investment, exports, personal consumption expenditures (PCE), nonresidential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The upturn in real GDP primarily reflected upturns in exports, in nonresidential fixed investment, in PCE, and in private inventory investment and a smaller decrease in residential fixed investment that were partly offset by an upturn in imports.

The price index for gross domestic purchases increased 1.3 percent in 2010, in contrast to a decrease of 0.2 percent in 2009.

Current-dollar GDP increased 3.8 percent, or \$541.4 billion, in 2010. In contrast, current-dollar GDP decreased 1.7 percent, or \$250.1 billion, in 2009.

During 2010 (that is, measured from the fourth quarter of 2009 to the fourth quarter of 2010), real GDP increased 2.8 percent. Real GDP increased 0.2 percent during 2009. The price index for gross domestic purchases increased 1.2 percent during 2010, compared with an increase of 0.5 percent during 2009.

#### Corporate Profits

Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased \$38.2 billion in the fourth quarter, compared with an increase of \$26.0 billion in the third quarter. Current-production cash flow (net cash flow with inventory valuation adjustment) -- the internal funds available to corporations for investment -- increased \$36.9 billion in the fourth quarter, in contrast to a decrease of \$68.4 billion in the third.

Taxes on corporate income decreased \$1.3 billion in the fourth quarter, in contrast to an increase of \$23.8 billion in the third. Profits after tax with inventory valuation and capital consumption adjustments increased \$39.5 billion in the fourth quarter, compared with an increase of \$2.2 billion in the third. Dividends increased \$8.9 billion, compared with an increase of \$8.1 billion; current-production undistributed profits increased \$30.6 billion, in contrast to a decrease of \$5.9 billion.

Domestic profits of financial corporations increased \$57.7 billion in the fourth quarter, compared with an increase of \$34.6 billion in the third. Domestic profits of nonfinancial corporations decreased \$10.1 billion in the fourth quarter, in contrast to an increase of \$0.3 billion in the third. In the fourth quarter, real gross value added of nonfinancial corporations increased, and profits per unit of real gross value added decreased. The decrease in unit profits reflected a decrease in unit prices that more than offset a slight decrease in unit labor costs. Unit nonlabor costs were unchanged.

The rest-of-the-world component of profits decreased \$9.4 billion in the fourth quarter, compared with a decrease of \$8.9 billion in the third. This measure is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from

unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. The fourth-quarter decrease was accounted for by a larger increase in payments than in receipts.

Profits before tax with inventory valuation adjustment is the best available measure of industry profits because estimates of the capital consumption adjustment by industry do not exist. This measure reflects depreciation-accounting practices used for federal income tax returns and is affected by the bonus depreciation provisions of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (see below). According to this measure, domestic profits of financial corporations increased and profits of nonfinancial corporations decreased. The decrease in nonfinancial corporations reflected decreases in all industries shown, except for small increases in some detailed manufacturing industries. The largest decrease was in wholesale trade.

Profits before tax decreased \$48.3 billion in the fourth quarter, in contrast to an increase of \$57.5 billion in the third. The before-tax measure of profits does not reflect, as does profits from current production, the capital consumption and inventory valuation adjustments. These adjustments convert depreciation of fixed assets and inventory withdrawals reported on a tax-return, historical-cost basis to the current-cost measures used in the national income and product accounts. The capital consumption adjustment increased \$153.5 billion in the fourth quarter (from -\$169.3 billion to -\$15.8 billion), compared with an increase of \$1.4 billion in the third. The inventory valuation adjustment decreased \$66.8 billion (from -\$36.4 billion to -\$103.2 billion), compared with a decrease of \$32.9 billion.

Provisions of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, signed into law December 17, 2010, provided a retroactive increase in bonus depreciation from 50 percent to 100 percent for qualified purchases made between September 9, 2010 and December 31, 2011.

Profits from current production are not affected because they do not depend on the depreciation-accounting practices used for federal income tax returns; rather, they are based on depreciation of fixed assets valued at current cost and using consistent depreciation profiles based on used-asset prices. The additional depreciation provided for by the Act is estimated to have increased tax-based depreciation expenses of corporations in the fourth quarter by \$156.0 billion (annual rate) and reduced profits before tax, which is based on earnings reported on tax returns, by the same amount. The capital consumption adjustment, which is the difference between the depreciation specified in the tax code and the depreciation underlying profits from current production, also increased by the same amount because the Act raised tax depreciation by \$156.0 billion. (Fourth-quarter profits tax liability was reduced by \$36.1 billion, and profits after tax were reduced by \$119.9 billion.)

As with corporate profits from current production, nonfarm proprietors' income with capital consumption and inventory valuation adjustments (table 10) was not affected by the provisions of the act; nonfarm proprietors' income without these adjustments was reduced, and the related capital consumption adjustment was increased by the same amount. The other major national income and product account components and aggregates shown in this release were not affected.

Further information is available in [FAQ #955](#): "How did the Small Business Jobs and Credit Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 impact the current quarterly estimates of the capital consumption adjustment for domestic business in 2010?"

#### Corporate profits in 2010

Profits from current production increased 29.2 percent in 2010, in contrast to a decrease of 0.4 percent in 2009. Domestic profits increased 37.0 percent, compared with an increase of 6.4 percent. The rest-of-the-world component of profits increased 8.9 percent, in contrast to a decrease of 14.3 percent.

Taxes on corporate income increased 63.4 percent in 2010, in contrast to a decrease of 17.3 percent in 2009. Profits after tax with inventory valuation and capital consumption adjustments increased 20.4 percent, compared with an increase of 5.1 percent. Dividends increased 1.9 percent, in contrast to a decrease of 9.9 percent; current-production undistributed profits increased 67.3 percent, compared with an increase of 81.3 percent.

According to the measure of profits before tax with inventory valuation adjustment, domestic profits of both financial and nonfinancial corporations increased in 2010. The increase in nonfinancial corporations reflected increases in all industries shown except chemical products and food and beverage and tobacco products. Within manufacturing, the largest increase was in computer and electronic products.

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Next release -- April 28, 2011, at 8:30 A.M. EDT for:  
Gross Domestic Product: First Quarter 2011 (Advance Estimate)

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